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C O N F I D E N T I A L SECTION 01 OF 04 ABU DHABI 003685

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DEPT FOR E, NEA/ARP
NSC FOR DNSA DMCCORMICK
OVP FOR KEVIN O'DONOVAN
ENERGY FOR SENIOR FOREIGN POLICY ADVISOR MOLLY WILLIAMSON
STATE PASS USTR FOR DONNELLY AND BELL

E.O. 12958: DECL: 09/17/2016
TAGS: [ETRD](#) [EPET](#) [EINV](#) [ELAB](#) [AE](#)
SUBJECT: EB A/S SULLIVAN'S MEETINGS IN THE UAE

REF: A. ABU DHABI 3629
[1](#)B. ABU DHABI 3619
[1](#)C. ABU DHABI3565

Classified By: Ambassador Michel J. Sison or reasons 1.4 (b & d).

[1](#)1. (C) Summary: A/S Sullivan held a series of bilateral meetings with AE officials and U.S. business representatives on September 11. ADNOC CEO Yousef Omair Bin Yousef explained that Abu Dhabi was increasing its oil production capacity to 4 million barrels per day over the next five to seven years. He commented that oil prices of \$70-\$80 per barrel were too high and that a price range of \$55-60 was preferable in terms of longer term stability. UAE officials all stressed the UAE's interest in concluding FTA negotiations with the U.S. They emphasized, however, that there were three main sticking points: energy, labor and (possibly) telecoms. ADNOC CEO bin Yousef stated categorically that certain areas of the hydrocarbon sector would remain closed, but noted that even absent an agreement, U.S. companies -- as proven leaders in the energy field -- would "not only maintain, but increase" their role in the energy sector. A/S Sullivan's interlocutors all expressed their interest in deepening the economic dialogue and in increasing the private sector's role in the dialogue. End Summary.

[1](#)2. (U) EB Assistant Secretary Daniel Sullivan visited the UAE from September 8 to September 13. A/S Sullivan was the State Department lead for an interagency delegation to the Iraq Compact Preparatory Group meeting on September 10 and also co-chaired the Joint Terrorist Finance Coordinating Committee meeting on September 12 (septels). In addition, A/S Sullivan held bilateral meetings with UAE officials and met with key U.S. businesses in the UAE on September 11, [1](#)2006. With Deputy Secretary of the Treasury Robert Kimmitt, A/S Sullivan participated in bilateral meetings with Abu Dhabi Crown Prince, Sheikh Mohammed bin Zayed Al-Nahyan, and UAE Foreign Minister Sheikh Abdullah bin Zayed Al-Nahyan (refs b & c). He met with Minister of State for Financial and Industrial Affairs Dr. Mohammed Khalifan bin Kharbash, Abu Dhabi National Oil Company (ADNOC) CEO and Secretary General of the Supreme Petroleum Council Yousef Omair bin Yousef, MinEcon Under Secretary Abdullah Al-Saleh, Mubadala CEO Khaldoon Al-Mubarak, and ADIA Deputy Managing Director Khalifa Al-Kindi on September 11. (Meetings with Al-Mubarak

and Al-Kindi reported septel.)

Thanking the UAEG for Hosting the Iraq Compact

¶3. (U) A/S Sullivan thanked his interlocutors for hosting the Iraq Compact Preparatory group meeting and for actively supporting the Iraqis to make it a successful event. He passed on Secretary Rice's appreciation for the UAE's outstanding efforts hosting the first major international conference in which the Iraqi government, including five ministers, played a leading role. MinState Khirbash said it was a pleasure to participate and he thought that the Iraqi delegation did "very well." He also noted that Iraqi DPM Barham Salih was impressive.

Oil Prices Too High at \$70-\$80

¶4. (C) On September 11, A/S Sullivan told ADNOC CEO bin Yousef that the USG appreciated the moderating role the UAE plays in OPEC and asked whether bin Yousef had any thoughts as to the likely outcome of the September 11 OPEC meetings being held the same day. Bin Yousef stated that he did not expect much to change at the meeting, noting that -- in reality -- OPEC production quotas are not being observed or implemented. He acknowledged that the market was tight and opined that prices in the \$70 to \$80 range were too high and that \$55-\$60 would be a more reasonable level, particularly in terms of long-term market stability for both producers and consumers. Bin Yousef added that overly high prices would eventually impact global economic growth negatively, which was not in the interest of either producers or consumers. He expressed surprise that the current round of high oil prices

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had had limited impact on economic growth. A/S Sullivan agreed, but underscored that sustained prices in the \$70 or above range would likely affect growth negatively. Bin Yousef noted that this could not last forever, adding that were the price to spike to \$100 a barrel, it would impact growth.

¶5. (SBU) In response to A/S Sullivan's question about OPEC's spare capacity, bin Yousef stated that supply and demand were roughly in balance, but acknowledged that there was little spare capacity to serve as a cushion. He noted that "speculators" were driving prices and that they reacted to rumors or crises. Problems in Nigeria and Venezuela were reflected in the futures markets. He also expressed his concern that speculators could drive the price down as well as up. Bin Yousef stressed that producers and consumers had an incentive to cooperate, since oil is a "strategic commodity" and both would benefit from stability at a "fair value."

¶6. (C) A/S Sullivan asked bin Yousef to elaborate on ADNOC's stated plans to expand production to 4 million barrels per day (mb/d). Bin Yousef explained that ADNOC currently produced about 2.8 mb/d in crude and condensate, having added 110,000 b/d in production in 2006. By mid 2008, ADNOC will add 130,000 b/d of condensate to its production. bin Yousef noted that, "realistically speaking," it would take five-seven years for ADNOC to increase its capacity to 4 m/d and that the plans being implemented might "slip a year or two." The major bottleneck is the shortage of qualified energy, procuring and construction (EPC) contractors. The current run of high oil prices, he noted, had caught everyone by surprise and producers were competing for trained people.

¶7. (C) A/S Sullivan expressed appreciation to bin Yousef for ADNOC's decision to sign agreements with ExxonMobil for a 28% stake in the Upper Zakum offshore oil field, noting that American companies in general bring more sophisticated technology and services to the marketplace in the energy sector. Bin Yousef agreed with A/S Sullivan's comments and

said that he was pleased that Abu Dhabi had decided in favor of Exxon and praised Exxon as an industry leader. Bin Yousef added that Exxon is likely "to stay with us in the long term."

Free Trade Agreement

18. (C) During the meetings, A/S Sullivan's interlocutors stressed the UAEG's interest in concluding an FTA with the U.S. but acknowledged that the UAE had sensitivities in areas such as energy, labor and telecoms. ADNOC CEO bin Yousef stated categorically that certain areas of the hydrocarbon sector would remain closed, but noted that even absent an agreement, U.S. companies -- as proven leaders in the energy field -- would "not only maintain, but increase" their role in the energy sector. He stressed that, just as the U.S. had its strategic concerns, so too, did the UAE. Bin Yousef assured A/S Sullivan that "the highest authority" in Abu Dhabi had made a "strategic decision" to engage with U.S. companies in the energy sector, adding that ADNOC was exploring new areas of cooperation. He stressed that "even areas that are currently closed will be opened up." Rather than opening up the energy sector generally, he explained ADNOC would reach out to leaders in the field through negotiations. He specifically referred to ExxonMobil, Bechtel, and Fluor.

19. (SBU) In his meeting with A/S Sullivan, MinEcon U/S Al-Saleh said that he still thought that an FTA was possible, but that he was less optimistic than he had been a year earlier. He cited three major obstacles to reaching an FTA: energy, labor, and (possibly) telecoms. He explained that, constitutionally, energy resources belonged to the individual emirates not the UAEG. The UAEG did not have the authority to make commitments on energy resources. Turning briefly to telecoms he noted that the UAE's new second telecommunications company needed time to establish itself in the market and needed a transition period before facing international competition. He explained that the UAE, as a country where nationals were in a clear minority, had

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demographic problems that affected its willingness to compromise on labor issues.

110. (C) Al-Saleh noted that the July investment discussions in London allowed both sides to look at ways that might address both parties' concerns about the energy sector. If these ideas proved practical, the Ministry of Economy could present the proposal to ADNOC (as the biggest energy player in the UAE) and seek its concurrence. He said that, in the GCC-EU FTA negotiations, the EU had accepted the UAE's constitutional limitations on energy (implying a carve-out). A/S Sullivan noted that the UAE's bilateral investment treaties (BITs) had not carved out the energy sector and inquired as to the discrepancy. Al-Saleh replied that some previous BITs did include the energy sector, but noted that these were not as comprehensive as the proposed U.S.-UAE FTA with its provisions for 3rd party arbitration, national treatment, etc. In addition, Al-Saleh noted, he was not aware that there had been any disputes under existing BITs on energy sector issues. He added that future BITs would likely exclude the energy sector.

11.(SBU) MinState Kharbash acknowledged that the U.S.-UAE FTA negotiations had reached a difficult point, but added that both sides had the will to see it through. MinFin A/US Khalid Al-Bustani noted that there were some sensitive issues in the negotiations. For its part, the UAE had brought the issues "to the highest authority, whereas he expressed concern that the U.S. had not done the same. He stressed that the UAE, Bahrain, and Oman all had different economies and needed to be treated differently. A/S Sullivan stressed that the USG faced certain congressionally mandated constraints on its FTA negotiating authority. Constitutionally, he explained, the U.S. Congress has the

authority over trade. It lends this authority to the administration to negotiate agreements, but puts conditions on that loan.

¶12. (SBU) A/S Sullivan underscored that in certain areas USG negotiators have little flexibility because they understand where Congressional limits reside. In this regard, he noted that a completed negotiation that did not pass Congress would be a scenario more troubling than no agreement at all. Nevertheless, he emphasized that the USG still very much wanted to complete the FTA negotiations and he encouraged his UAE interlocutors to work on creative solutions to resolve remaining issues.

Deepening the Economic Dialogue

13.(SBU) In the course of their discussions, both MinState Kharbash and U/S Al-Saleh discussed their interest in deepening and perhaps formalizing the UAE,s economic dialogue with the U.S. MinState Kharbash and A/S Sullivan agreed that the private sector role in such a deepened dialogue needed to be increased. U/S Al-Saleh noted that the relationship was strong, but put in a plea for technical assistance in certain areas: including intellectual property rights enforcement and export controls. In the area of IPR, he said that the UAE would appreciate cooperation in addressing the problem of counterfeit goods. Al-Saleh said the UAE has IPR laws, but would like to work together to improve their enforcement. He explained that the Ministry of Economy had recently assumed responsibilities for all IPR matters and needed technical assistance and training. On the issue of export control laws, he said that Legislative Committee was looking at a draft law. He explained however, that there were concerns that each ministry would draft its own export law and that there needed to be a comprehensive law for exports and imports. He explained that the UAE was in the process of drafting that law and that he expected to meet all of the concerned ministries within the next ten days. Al-Saleh added that the UAE was looking at drafting or revising other laws (including the Commercial Companies Law) to reflect the current business environment. He explained that the UAE had already amended its Agencies law to make it "fair" to both parties to the agreement.

U.S. Businesses

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14.(SBU) A/S Sullivan participated in a lunch with U.S. business representatives from the energy, defense, construction, automotive, pharmaceuticals, consulting and IT sectors. In general, U.S. businesses expressed their satisfaction with their opportunities in the UAE. While attesting to the success many US companies are having in the Emirates, the group also expressed concern about UAE agency laws and all expressed interest in whether and how recent amendments would be applied.

Comment

¶15. (C) All of A/S Sullivan's interlocutors stayed "on point" on the issue of the FTA. The UAE wants to conclude a deal, but has sensitive areas that it wants to protect. Bin Yousef was most explicit that -- in his view -- the oil and gas sector would not be included in an FTA, but stressed the favored position that U.S. firms enjoyed and would continue to enjoy in the sector. End Comment.

¶16. (U) A/S Sullivan has cleared this message.
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